BEYOND THE HORIZON

HORIZON FINANCIAL ADVISORS NEWSLETTER

1st Quarter, 2015 Issue

ON THE HORIZON

The new year brings forth several developments with our firm that we would like to share with you.

- 2015 will mark 25 years since Horizon Financial Advisors became an independently-owned and operated firm. We are proud yet humbled to celebrate this milestone and owe our gratitude to you, our valued clients. Our success over the years is due in part to your business and the referrals of your friends and family.

- We have added a new member to the Horizon Financial Advisors team. Mike Satler joins us as our new apprentice and is training to become a registered financial advisor. Mike was born and raised in Pittsburgh and is a graduate of the University of Pittsburgh where he focused his studies on Finance. For the past several years, he was employed in the food services industry in a management role. He returns to his roots and original career path by joining our team. We are very excited to have Mike as part of our family.

- As of January 1st, George Hebert is spending less time in the office. He is now in the office Mondays, Tuesdays, and Wednesdays but accessible by phone, as needed, for the remainder of the week.   But that doesn't mean he is retiring - just spending more time with his grandchildren.

- This newsletter, *Beyond the Horizon*, will now be published on a semi-annual basis (versus quarterly) hereafter. The next issue will be published in July. As a reminder, you can choose to receive the newsletter by email. If you wish to do so, please call our office and let Darcy know. Also, if there are topics you'd like to see covered in future newsletter editions, let us know.

IN THE NEWS

The following are the tax rules and limits for the UPCOMING 2015 tax year.

- The limits for contributions into company-sponsored retirement plans INCREASE for 2015. The 401(k) and 403(b) contribution limit increases to $18,000 (plus a $6,000 "catch-up" for those age 50 or older). The limit for contributions to a Simple IRA INCREASES to $12,500 (plus a $3,000 "catch-up").

- The maximum contribution limit for Traditional and Roth IRAs HOLDS in 2015 at $5,500. The additional "catch-up" contribution for those age 50 or older also holds at $1,000 for a total maximum contribution limit of $6,500.

- Taking the deduction for Traditional IRA contributions may be limited for those who participate in an employer-sponsored retirement plan. The income phase-out increases slightly to $98,000-$118,000 for marrieds and $61,000-$71,000 for singles. Where only one spouse is active in a plan, the phase-out is $183,000-$193,000.

- The income limit for making Roth IRA contributions also increases with phase-outs at $138,000-$193,000 for married filers and $116,000-$131,000 for single filers.

- A reminder that the 0% tax rate on capital gains and qualified dividends was made permanent for filers who fall in the 15% or lower tax bracket.

- The Social Security wage base for this payroll tax increases to $118,500 in 2015.

- Those collecting Social Security who are between the ages of 62 and 66 can earn $15,720 in 2015 without losing benefits. Individuals who reach their Full Retirement Age (FRA) during 2015 can earn up to $41,880 in the months before reaching FRA without losing benefits.

- The annual gift tax exclusion REMAINS at $14,000 per recipient. For 2015, estates valued at $5,430,000 or less will be exempt from the Federal estate tax.

- The contribution limit to Health Savings Accounts ("HSAs") increased slightly to $3,350 for single coverage and $6,650 for family coverage. HSA owners born before 1960 can put in $1,000 more.

- The personal exemption increases to $4,000 per person.

- The standard deductions also increase to $12,600 for married filers (plus $1,250 for each spouse age 65 or older), $9,250 for heads of household (plus $1,550 if age 65); and $6,300 for single filers (plus $1,550 if age 65).

Sources: National Association of Tax Professionals; Internal Revenue Service; Social Security Administration; KB&Co; Kiplinger.

MARKET OUTLOOK

We begin a new year by first recapping what we left behind. In 2014 the Nasdaq finished the year by gaining 13.40%, followed by the S&P 500 and Dow Jones Industrial Average gaining 11.39% and 7.52%, respectively. International stocks, on the other hand, fell roughly - 3.4% last year. In terms of the asset classes, real estate was the clear winner by gaining approximately 30%, while commodities (metals, lumber, oil, and gas) was the clear loser by falling approximately - 33%.

By most accounts, the stock markets fared better in 2014 than was expected, and many prognosticators are providing an early prediction that 2015 will end as another good year. As reported by MSN, the average forecast of 15 top Wall Street strategists is for a gain of roughly six percent for the S&P 500 in 2015, while Kiplinger is forecasting a gain of roughly 10%. This forecast is based on the current environment of improving economic growth, continued low interest rates, and low energy prices. However, it is also believed the resulting gains will occur in tandem with more volatility, particularly when the Fed moves to raise short-term interest rates.

Despite the positive forecast for 2015, the year began with falling stock prices as a result of the significant decline in oil prices. The oil price decline is primarily due to supply outpacing demand. Though falling oil prices has benefited the consumer at the pumps, it's believed the savings aren't resulting in higher retails sales or consumer activity. Instead the savings are being offset with higher health care costs. Additionally, falling oil prices are roiling the energy sector and the markets in general. Stock markets are reacting negatively over concerns that falling oil prices may be signaling a further economic slowdown in China, Europe and Japan. Lower oil and gas prices are posing a challenge for oil-producing companies, which make up a good part of the stock market indices.

We anticipate periods of increased volatility throughout this year as a result of continued downward pressure on oil prices, the change of power in Congress, fears of a global slowdown, and a move by the Fed to increase short-term rates, which will likely happen sooner than later. For now, we don't see any excessive or severe pullbacks on the horizon at this point. Favorable money supply, valuations, and psychology in addition to low interest rates and low inflation support a continuation of this bull market. Some investors worry that valuations may be high with the Dow hovering around 18,000 points (as of early January 2015). But after six years of gains, equity valuations in the U.S. are generally in line with long-term averages. As of November 30, 2014 the trailing P-E ratio for the S&P 500 was 17.5, slightly above the long-term average. For now, the U.S. "is the big engine of economic activity driving the world" as stated by Jim Rothenberg, Chairman of Capital Group (managers of the American Funds). However, it still makes sense to be globally diversified from a long-term perspective. In fact, faster growth outside the U.S. is more likely over the long-term.

Finally, interest rates are likely to begin moving higher, though perhaps not as high or as fast as investors might expect. While the U.S. economy appears to be strengthening, signs of slowing growth in Asia and Europe could keep rates from climbing too fast. Rising rates, though technically not healthy for bonds, should not dissuade investors from including them in a portfolio. Bonds are an important diversification tool to help mitigate losses during stock market downturns.

One important key to investor success moving forward, in our opinion, will be having a diversified portfolio that is appropriately allocated for their goals and risk tolerance while keeping a healthy perspective of the markets. Day-to-day movements should not cause an investor to react or change strategy if they have already implemented an appropriate one.

Sources: MSN, Hays Advisory, American Funds; Kiplinger.

SOCIAL SECURITY— WHAT YOU NEED TO KNOW

Over the past several issues of *Beyond the Horizon*, we have been discussing Social Security and how it impacts you. We first began with an overview of the Social Security system, beginning with its enactment on August 14, 1935. In the beginning of the program, up to half of the labor force was excluded. Today, about 165 million people work and pay Social Security taxes, and about 58 million people receive monthly Social Security benefits, most of whom are retirees and their families.

In our last newsletter, we discussed how to become eligible to receive Social Security benefits. Benefits collected during retirement are based on the earnings history of yourself and/or your spouse. The earliest you can begin collecting retirement benefits is age 62. In this case, benefits are reduced to 75% of your full retirement age (FRA) benefit. Additionally, benefits can be further reduced for those who continue to work and collect prior to reaching full retirement age. Conversely, if you choose to postpone benefits beyond your FRA, your benefit will increase 8% for each year you wait. However, delayed credits cease to accrue after age 70.

This final installment in our series on Social Security will address the factors to consider when determining when to begin receiving retirement Social Security benefits. From a practical standpoint, if income is needed and assets/savings are limited, beginning benefits early (prior to full retirement age but no sooner than 62) would most likely be the best option. From a financial standpoint, however, the best choice would be based on several factors such as life expectancy, taxes, survivor benefits, and the availability of other assets and income.

First, the longer you expect to live, the more it behooves you to wait until FRA or possibly later in order to maximize your lifetime benefits. Second, benefits become subject to Federal income taxes when the total of one-half of your benefits plus other income exceeds $25,000 for single filers or $32,000 for married filers. Therefore, if you are still working and choose to begin collecting benefits, not only might the Social Security benefit be reduced, but it will likely cause more of your Social Security to be subject to taxes. However, no more than 85% of the benefit can be subject to Federal taxation. Third, when you choose to begin receiving benefits can affect what your spouse might receive. If a spouse has never worked or earned enough credits to collect their own benefit, he/she may be eligible to collect as much as one-half of the primary worker's retirement amount when the spouse reaches his/her FRA. The amount the spouse collects is based on when the spouse begins collecting, not when the primary worker does. However, in the event of the death of the primary worker, the spousal benefits as a survivor will be affected by when the primary worker started collecting. Therefore, if the primary worker chooses to collect early and reduces their lifetime benefit then passes away, the surviving spouse could be impacted by also receiving a lower benefit. Last, the availability of other assets and income sources also play an important role in the decision-making process as to when to start collecting benefits. Those with guaranteed income sources such as pensions and assets/investments to generate additional income are more likely to postpone collecting benefits until FRA to maximize lifetime benefits.

In summary, studies on this subject often conclude that most retirees are going to be better served by delaying Social Security benefits until full retirement age or later. Delayed Social Security benefits are especially valuable for females (due to their longer life expectancy), married couples (to maximize potential survivor benefits) and investors who expect to invest in relatively conservative portfolios during retirement (because the Social Security benefit could increase at a higher rate than what could be earned in the market).

In the long run, it is our opinion that the final decision should be based on the client's needs, circumstances and comfort level. We understand it is difficult to fully cover this topic within the confines of this article. Therefore, feel free to call our office if you have questions regarding when to collect benefits and the other filing strategies that might work for you.

Sources: Social Security Administration; Morningstar.

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